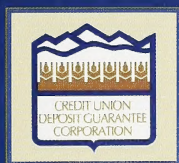
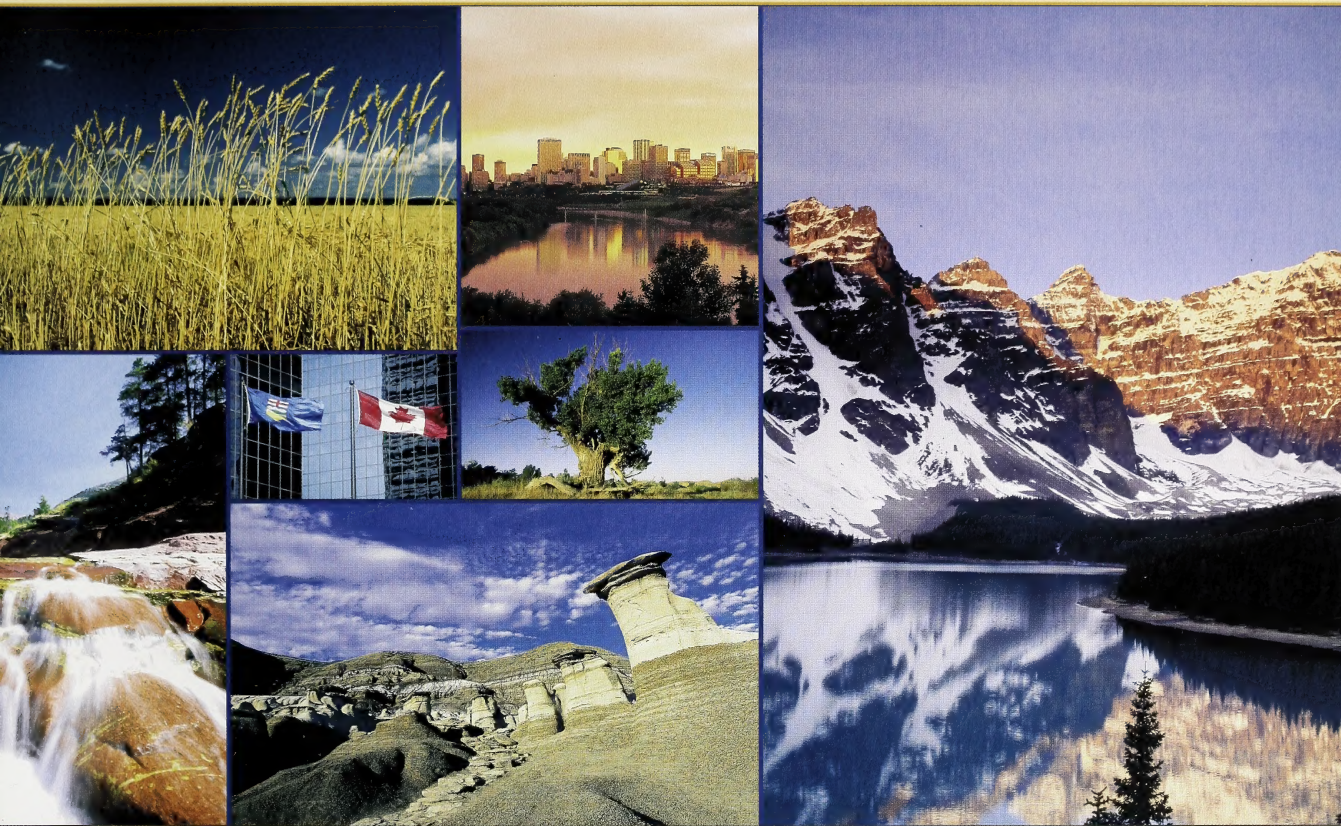


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CREDIT UNION DEPOSIT GUARANTEE CORPORATION



2003 ANNUAL REPORT

Serving Alberta

Deposit Guarantee Statement

The Credit Union Deposit Guarantee Corporation guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that this obligation of the Corporation is carried out.

Vision

Financially strong and stable Alberta credit unions with cost effective protection for depositors.

Mission

To oversee business practices in Alberta credit unions and guarantee deposits according to legislation.

Primary Roles

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate and enforce the *Credit Union Act*.
- Review, advise and direct on credit union sound business practices.
- Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
- Establish individual credit union loan approval limits and provide an approval function for loans exceeding these limits.



Contents



Serving Alberta: Deposit Guarantee Statement, Vision, Mission, Primary Roles	Inside Front Cover
Chair's Message	2
2004 Goals	3
2003 Results	4
Financial Summary - Deposit Guarantee Fund	5
Management's Responsibility for Reporting	6
Auditor's Report	6
Balance Sheet	7
Statements of Income and Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Schedule of Administration Expenses	17
Corporate Governance Practices	18
Committees	20
Board of Directors	Inside Back Cover
Corporate Philosophy	Inside Back Cover

All photos courtesy of Travel Alberta

Cover photos, clockwise from top-left: Wheat field, Northern Alberta; Edmonton Skyline at sunset; Moraine Lake, Banff National Park; Hoodoos near Drumheller; Red Rock Canyon, Waterton Lakes National Park; Alberta and Canadian Flags, Calgary; Cottonwood Tree, near Dinosaur Provincial Park, Badlands.

Photos above, from left: Mount Edith Cavell, Jasper National Park; Edmonton Skyline, Muttart Conservatory in foreground; Straw bales, Alberta; Calgary Skyline, Centre Street Bridge in foreground; Pyramid Mountain and Pyramid Lake, Jasper National Park.

Chair's Message

It has been a pleasure for me to serve the Corporation and its Board of Directors as Chair for another year. The accomplishments of individual credit unions and the Corporation during the past year contributed to the financial strength of the Alberta credit union system and enhanced our 100% deposit guarantee.

Last year, we indicated that our focus for 2003 would be on providing information and support on sound business practices, developing an enterprise risk management framework and regulating credit unions based on risk and size. Credit unions are now utilizing the credit union self-assessment report to measure compliance with sound business practices. This is useful to both credit unions and the Corporation in identifying areas that may need further strengthening. An enterprise risk management framework has been drafted for the Corporation and this will assist us in providing a formalized approach to deal with emerging risks and the challenges faced in the ever changing financial services area. This is a key component of good governance practices, which we continue to identify as a priority.

The Corporation established a Board Governance Committee with a mandate to provide a focus on governance issues in order to enhance Board performance. A Memorandum of Understanding between the Minister of Finance and the Corporation was signed in 2003. This agreement outlines the governance framework that we operate within, clarifies our responsibilities and reporting obligations, and will be reviewed on a regular basis by the new Board Governance Committee.

We appreciated the opportunities we had over the past year to communicate with credit unions and receive many useful comments in our efforts to promote an open and effective working relationship with the system. Feedback on our loan approval process, risk rating system, and annual satisfaction survey was invaluable to us. As a result of the comments received, improvements to our processes, practices and tools have been made and further improvements will continue.

The Corporation's success over the year was made possible through the hard work and dedication of our senior management team and all employees. The directors appreciate and applaud everyone's efforts.

Early in 2004, Jim Laitner will retire as our President and Chief Executive Officer. All directors extend special recognition to Jim for his significant contributions during his twelve and one-half years of service with the Corporation and best wishes for his retirement. The executive search process for Jim's successor has been completed, and I am pleased to congratulate Steve Blakely on his promotion from Vice President, Credit to President and Chief Executive Officer of the Corporation, effective March 1, 2004. We are confident that the system will afford Mr. Blakely its full cooperation as he assumes his new duties.

The Lieutenant Governor in Council of Alberta appoints the Corporation's Board of Directors. With the recent amendments to the *Credit Union Act*, the credit union system gained another representative on our Board, which increased the size of our

Chair's Message

Board from seven to eight directors in August 2003. In addition, the terms for Ron Gilmore and John Henry expired during the year. Both of these directors were thanked for their dedication and many contributions to the Corporation and wished well in their future endeavours. We welcomed three new directors to the Board during the year: Brian Evans, Allen Govenlock and Ken Motiuk. I would also like to extend appreciation, on behalf of the Corporation, to all directors for their commitment and contributions towards strategic planning and governance of the Corporation this past year.

We look forward to reflecting on the significant progress that has been made over the years, as we celebrate the Corporation's 30th Anniversary in 2004.

In 2004, our key strategies focus on providing information and support to credit unions on risk assessment/management and best practices in corporate governance (refer to chart for our detailed 2004 goals and strategies). These key areas are consistent with the panel discussion on "Emerging Trends in Corporate Governance in the Post-Enron Era" that took place at the Credit Union Directors' Conference in November. It was an honour and privilege to participate with that panel discussion, as the Corporation is committed to the ongoing improvement of its corporate governance practices, as well as individual credit unions. The adoption of sound and effective governance-related structures and procedures in credit unions will provide the discipline necessary to meet the challenges ahead. By working together on these commonly shared priorities, the Corporation and credit unions will continue to strengthen the overall level of deposit protection in the years ahead.

Bob Splane
Chair, Board of Directors

2004 Goals	
PROTECTION	To identify and mitigate risk to the Corporation and the credit union system.
Strategies	<ul style="list-style-type: none"> Provide information, training, support and understanding to credit unions on the development and implementation of an Enterprise Risk Management Framework. Continue to provide information and training to credit unions on developing management succession and business resumption plans.
COMMUNICATION	To maintain effective communications and relationships with stakeholders.
Strategies	<ul style="list-style-type: none"> Communicate regularly with credit unions and provide guidelines on system wide issues and best practices. Continue to meet and communicate regularly with Alberta Finance and Credit Union Central Alberta representatives and credit unions.
REGULATION	To regulate and enforce the <i>Credit Union Act</i> in a fair and cost-effective way.
Strategies	<ul style="list-style-type: none"> Implement the risk-based approach to regulation into our operational processes. Implement the regulatory approaches for different sized credit unions (small/medium/large).
EFFECTIVENESS	To maintain an effective organization.
Strategies	<ul style="list-style-type: none"> Utilize technology effectively to maintain data on the internal and external environment to facilitate our Enterprise Wide Risk Management Framework. Continue to focus on key training areas and the necessary tools to enhance core competencies and knowledge base.

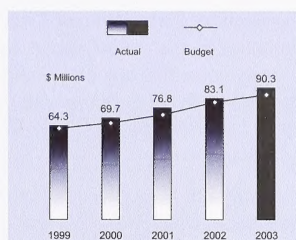
2003 Results

Goals & Strategies	*	Results
GOAL: To identify and mitigate risk to the Corporation and the credit union system.		
<ul style="list-style-type: none"> Continue to provide information, training, support and understanding on the implementation of sound business practices. 	✓	<ul style="list-style-type: none"> Provided information and support to assist 17 credit unions in completing the Credit Union Self-Assessment Questionnaire on sound business practices compliance. Credit unions have used this as an opportunity to review or formalize their practices and gain a better understanding of sound business practices.
<ul style="list-style-type: none"> Develop and implement an Enterprise Risk Management Framework to assess and mitigate risks. 	✓	<ul style="list-style-type: none"> Issued 3 bulletins to clarify specific topical issues relating to sound business practices. An Enterprise Risk Management Framework has been developed. The framework will be refined and then reviewed and updated on a regular basis.
GOAL: To maintain effective communications and relationships with stakeholders.		
<ul style="list-style-type: none"> Communicate regularly with credit unions on system wide or banking issues and best practices. 	✓	<ul style="list-style-type: none"> Communication on banking issues/best practices delivered through regular Risk Watch publications, Lending and Sound Business Practices Bulletins and other memos. The credit department staff made 69 visitations to credit unions to discuss lending matters and provide assistance.
<ul style="list-style-type: none"> Continue with regular meetings and communications with Alberta Finance and Credit Union Central Alberta representatives and credit unions. 	✓	<ul style="list-style-type: none"> Participated in various meetings with Credit Union Central Alberta and credit union representatives to discuss the risk rating model, business resumption plans, lending matters and sound business practices (Credit Union Internal Audit Committee, Peer Groups, Credit Union Manager's Committee, Credit Union Lenders Association and System Liaison Committee). Communicated with Alberta Finance on the risk rating model, Credit Union Self-Assessment Questionnaire, legislative matters, and the new Memorandum of Understanding Agreement.
GOAL: To regulate credit unions in a fair and cost-effective way.		
<ul style="list-style-type: none"> Regulate credit unions using a risk-based approach. 	✓	<ul style="list-style-type: none"> The risk-rating model was discussed with 42 credit unions on an individual basis. Some useful suggestions were received and these will be considered in finalizing the specific formulas and threshold performance levels. This risk-based approach will be useful in our monitoring processes and in establishing examination priorities.
<ul style="list-style-type: none"> Formalize regulatory approaches for different sized credit unions (small/medium/large). 	✓	<ul style="list-style-type: none"> We reviewed our regulatory approaches and have made some changes to adjust them for different sized credit unions. Key changes were made in the examination area for smaller credit unions (less than \$10 million in assets) in terms of frequency of examinations and a more streamlined approach. The annual Credit Union Consultation Survey was completed during the year. This was the first time that a separate survey was provided to the smaller credit unions. We were very pleased with the higher level of response from credit unions and the invaluable comments received. Overall, satisfaction levels were generally the same or better than the prior year's survey.
GOAL: To maintain an effective organization.		
<ul style="list-style-type: none"> Apply technology effectively to streamline processes. 	✓	<ul style="list-style-type: none"> Converted the Risk and Insurance Guidelines and Lending Bulletins and Guidelines into a new software program for manuals, that will facilitate easier access to the information by credit unions. Developed enhancements to the secure section of the Corporation's website to address comments and suggestions arising from Credit Union Consultation Survey. These upgrades will be ready to roll out to credit unions early in 2004. Developed new credit department monitoring system to improve reports and worked with Credit Union System Liaison Committee to identify areas where we can make more effective use of technology. Developed scorecards for the risk rating model and automated the examination program and other financial reports to streamline processes.
<ul style="list-style-type: none"> Identify key training areas and the necessary tools to enhance core competencies and knowledge base. 	✓	<ul style="list-style-type: none"> Significant increase in training courses taken by all Corporation staff on topics such as privacy compliance, consumer, mortgage and commercial lending, information technology and software, fraud prevention, sensational service and coaching skills.
* "Performance Measure" targets met.		

Financial Summary - Deposit Guarantee Fund

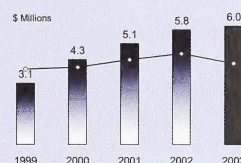
Equity

The equity in the Deposit Guarantee Fund is available to protect Alberta credit union depositors. Minimum equity of at least 1% of total credit union assets is set out as a standard by the Credit Union Stabilization Funds of Canada. Equity reached \$90.3 million at December 31, 2003, which represents 1% of total credit union assets.



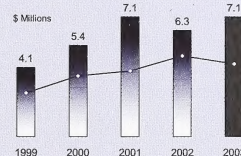
Investment Income

Investment income for 2003 exceeded the budget and the 2002 actual amount mainly because of gains from investment trades. The investment portfolio is managed with the objective of meeting the total return of the applicable Scotia Capital Markets All-Government benchmark indices, over a four year period, while maintaining high quality instruments in the portfolio. During the year, the investment portfolio slightly exceeded the benchmark.



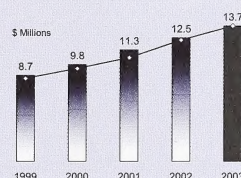
Net Income

Net income for 2003 exceeded budget mainly due to higher investment income and financial assistance payments that were not incurred. It was higher than the net income for 2002 due to increased recoveries of financial assistance.



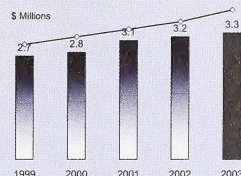
Assessments

Deposit guarantee assessments for 2003 were approximately equal to the budget amount. The assessment revenue was greater than the 2002 actual amount because of the growth in the total assessment base (deposits and borrowings) for all credit unions. The assessment rate charged to credit unions was maintained at 17 basis points of deposits and borrowings.



Administration Expenses

Administration expenses for 2003 are approximately 4% higher than for 2002 due to an increase in salaries and benefits during the year. The 2003 administration expenses were lower than the budget amount mainly due to staff travel, other expenses and professional fees not incurred.



Management's Responsibility for Reporting

The financial statements of Credit Union Deposit Guarantee Corporation, and all other information contained in the annual report, are prepared and presented by management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with Canadian generally accepted accounting principles. Preparation of the statements necessarily involves the use of estimates which are made using careful judgement.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors has the ultimate responsibility for these financial statements. The Board oversees management's responsibilities for financial reporting through an Audit Committee, composed entirely of directors who are not officers or employees of the Corporation. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit Committee reviews the annual financial statements, as well as issues related to them. The Audit Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Audit Committee's review of financial reports includes an assessment of key management estimates and judgements material to the financial results.

The external auditor conducted an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The external auditor has full and unrestricted access to the Audit Committee to discuss his audit findings as to the integrity of the Credit Union Deposit Guarantee Corporation's financial reporting and adequacy of internal controls.

The Auditor General has examined these financial statements and his report follows.

J. Laitner
President and Chief Executive Officer

E. Friedrich, CA
Vice President, Finance and Administration

Auditor's Report

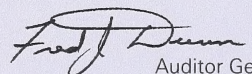
**AUDITOR
GENERAL**
Alberta

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 2003 and the statements of income and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

 FCA
Auditor General

Edmonton, Alberta
February 13, 2004

Balance Sheet

December 31, 2003

(thousands of dollars)

	2003	2002
ASSETS		
Cash	\$ 11,038	\$ 11,414
Investments (Note 3)	89,402	81,850
Accrued interest receivable	797	863
Income taxes receivable	79	-
Due from credit unions	2,630	2,299
Other assets (Note 4)	932	828
Property and equipment (Note 5)	169	196
	\$ 105,047	\$ 97,450
LIABILITIES		
Accounts payable and accrued liabilities	\$ 661	\$ 724
Income taxes payable	-	28
Accrual for financial assistance (Note 6)	1,265	1,700
Deferred revenue	1,067	986
Special contribution payable (Note 7)	9,168	8,354
Long-term unclaimed credit union balances payable	476	459
	12,637	12,251
Commitments and contingencies (Note 8)		
EQUITY		
Deposit Guarantee Fund	\$ 90,253	\$ 83,105
Master Bond Fund	2,157	2,094
	92,410	85,199
	\$ 105,047	\$ 97,450

The accompanying notes and schedule are part of these financial statements.

Approved by the Board:



, Director *Mary C. Arnold, FCA*, Director

Statements of Income and Equity

For The Year Ended December 31, 2003

(thousands of dollars)

	2003		2002	
	Budget	Actual	Actual	
DEPOSIT GUARANTEE FUND				
Revenues:				
Deposit guarantee assessments	\$ 13,652	\$ 13,690	\$ 12,544	
Investment income	4,112	6,044	5,844	
	17,764	19,734	18,388	
Expenses:				
Interest and bank charges	11	5	3	
Provision for (recovery of) financial assistance (Note 6)	500	(445)	(26)	
Special contribution (Note 7)	9,041	9,168	8,354	
Administration (Schedule 1)	3,885	3,317	3,192	
	13,437	12,045	11,523	
Income before income taxes	4,327	7,689	6,865	
Income taxes (Note 9)	72	541	580	
Net income for the year	4,255	7,148	6,285	
Equity at beginning of year	81,430	83,105	76,820	
Equity at end of year	\$ 85,685	\$ 90,253	\$ 83,105	
MASTER BOND FUND				
Revenues:				
Insurance assessments	\$ 941	\$ 983	\$ 855	
Investment income	68	70	66	
	1,009	1,053	921	
Expenses:				
Insurance premiums	831	783	693	
Administration (Schedule 1)	120	120	120	
Insurance claims	103	87	298	
	1,054	990	1,111	
Net income (loss) for the year	(45)	63	(190)	
Equity at beginning of year	2,295	2,094	2,284	
Equity at end of year	\$ 2,250	\$ 2,157	\$ 2,094	

The accompanying notes and schedule are part of these financial statements.

Statement of Cash Flows

For the Year Ended December 31, 2003

(thousands of dollars)

	2003	2003	2002
	Budget	Actual	Actual
Operating activities:			
Assessments received	\$ 14,406	\$ 14,469	\$ 13,328
Investment income received	4,180	6,180	5,690
Financial assistance recovered (paid)	(500)	10	11
Interest and bank charges paid	(12)	(5)	(3)
Insurance claims paid	(103)	(231)	(156)
Income taxes paid	(321)	(637)	(689)
Paid to suppliers and employees	(4,273)	(4,198)	(3,967)
Special contribution paid	(8,372)	(8,354)	(7,637)
Cash flows from operating activities	5,005	7,234	6,577
Investing activities:			
Purchase of investments, net	(4,885)	(7,552)	(3,365)
Purchase of capital assets	(120)	(58)	(51)
Cash flows from investing activities	(5,005)	(7,610)	(3,416)
Cash inflow (outflow)	-	(376)	3,161
Cash at beginning of year	5,501	11,414	8,253
Cash at end of year	\$ 5,501	\$ 11,038	\$ 11,414

The accompanying notes and schedule are part of these financial statements.

Notes to the Financial Statements

December 31, 2003

Note 1 Authority and purpose

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 2003, credit unions in Alberta held deposits including accrued interest totalling \$8,240,449,000 (2002 - \$7,583,130,000). Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

Note 2 Significant accounting policies and reporting practices

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The primary objective of the Deposit Guarantee Fund is to enable the Corporation to guarantee the repayment of all deposits, including accrued interest, held by Alberta credit unions. The Deposit Guarantee Fund's statement of income includes deposit guarantee assessments received from credit unions, financial assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to Alberta credit unions under a policy administered by the Corporation. A credit union may claim a maximum of \$100,000 for directors liability claims and \$85,000 for other claims, less its deductible, which is payable out of the Master Bond Fund and a third party reinsurance policy insures the amount of the claim that exceeds \$100,000 or \$85,000 respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, investment income, insurance premiums paid for the reinsurance policy, an administration fee, and insurance claims paid.

(b) Use of estimates

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, allowance for loan impairment and Master Bond Fund insurance claims (expected and unreported). The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

(c) Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund, which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

Notes to the Financial Statements

December 31, 2003

Note 2 Significant accounting policies and reporting practices (continued)

(d) Investments

Investments are carried at cost or amortized cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Investments are written down when there is a decline in value that is other than temporary. Gains and losses on sale of investments are included with investment income in the year of sale. Substantially all securities held are purchased with the intention to hold them to maturity.

(e) Property and equipment

The following rates are designed to amortize the cost of property and equipment over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	30 per cent declining-balance
Leasehold improvements	straight-line over lease term
Computer software	one year straight-line

(f) Income taxes

The Corporation records income taxes based on the tax liability method. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

(g) Insurance claims

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported insurance claims. It makes an additional accrual of the estimated losses from unreported insurance claims based on the last three years' average actual loss experience.

(h) Accrual for financial assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for financial assistance becomes likely and the amount can reasonably be estimated.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the Alberta credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the Alberta credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

(i) Fair value of financial instruments

Most financial instruments are valued at their carrying amounts included on the balance sheet, which are reasonable estimates of fair value. This approach applies to cash, accrued interest receivable, due from credit unions, accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances payable. The fair values of investments are disclosed in Note 3.

Notes to the Financial Statements

December 31, 2003

Note 3 Investments

(thousands of dollars)		2003		2002	
	Cost	Market Value ²	Cost	Market Value ²	
Securities issued or guaranteed by:					
Canada	\$ 37,472	\$ 38,519	\$ 41,449	\$ 43,349	
Provinces	17,148	17,682	16,447	17,363	
Other	34,782 ¹	35,625	23,954 ¹	24,524	
Total	\$ 89,402	\$ 91,826	\$ 81,850	\$ 85,236	

¹ These securities include shares of Credit Union Central Alberta Limited (\$100,000) and Co-operative Trust Company of Canada (\$15,000), which approximate market value and have no specific term to maturity.

² Market value is calculated using independent pricing sources and Canadian investment dealers.

The investment portfolio is managed by external managers with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Markets All-Government indices over a four year period. The portfolio is comprised of high quality Canadian fixed income and debt related instruments. Competitive investment returns are achieved through management of the portfolio duration and holdings.

As at December 31, 2003, securities held have an average effective yield of 4.80% per annum based on cost (2002 – 5.20%); 4.10% per annum based on market (2002 – 4.30%). These securities have the following term structure based on par: under one year – 1% (2002 – 0%); over one year and under five years – 57% (2002 – 56%); over five years and under ten years – 42% (2002 – 44%).

The market value of the investments is subject to fluctuation as a result of normal market risk. The principal factor influencing the market value is the prevailing rate of interest. An increase of 1 percent in interest rates will result in a decrease of approximately \$889,000 (2002 – \$852,000) in the market value of the total investments; and conversely, a decrease of 1 percent in interest rates will result in an increase in the market value of the same amount.

Note 4 Other assets

(thousands of dollars)		2003	2002
Prepaid expenses	\$	903	\$ 785
Future income taxes recoverable (Note 9)		29	42
Investment in S C Financial Ltd.		-	1
Total	\$	932	\$ 828

SC Financial Ltd. operations ceased effective October 31, 2002 and it was dissolved on March 25, 2003. The Corporation's investment in S C Financial Ltd. was liquidated on dissolution.

Notes to the Financial Statements

December 31, 2003

Note 5 Property and equipment

<i>(thousands of dollars)</i>	2003	2002
Furniture and equipment	\$ 399	\$ 391
Computer equipment	155	171
Leasehold improvements	127	126
Computer software	92	94
	773	782
Less accumulated amortization	(604)	(586)
Net book value	\$ 169	\$ 196

Note 6 Accrual for financial assistance

To fulfill the mandate described in Note 1, the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

<i>(thousands of dollars)</i>	2003	2002
Accrual for financial assistance:		
Balance at beginning of year	\$ 1,700	\$ 1,715
(Recovery of) financial assistance	(435)	(15)
Balance at end of year	\$ 1,265	\$ 1,700
Provision for (recovery of) financial assistance:		
(Recovery of) financial assistance	\$ (435)	\$ (15)
Loan loss (recoveries)	(10)	(11)
Provision for (recovery of) financial assistance	\$ (445)	\$ (26)

Notes to the Financial Statements

December 31, 2003

Note 7 Special contribution payable

<i>(thousands of dollars)</i>	2003	2002
Balance at beginning of year	\$ 8,354	\$ 7,637
Payment of previous year's special contribution	(8,354)	(7,637)
Special contribution for the year	9,168	8,354
Balance at end of year	\$ 9,168	\$ 8,354

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement until 2010. It is equal to 0.11 percent of Alberta credit union deposits, including accrued interest and borrowings, as at October 31.

Note 8 Commitments and contingencies

(a) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises totalling \$299,000.

The following amounts represent minimum payments over the next three years:

2004	\$ 138,000
2005	138,000
2006	23,000

(b) Litigation

There are legal proceedings pending against the Corporation that arise from normal business activities. Management of the Corporation believes that the financial cost of resolution of these proceedings will not be material to the financial position of the Corporation.

Notes to the Financial Statements

December 31, 2003

Note 9 Income Taxes

The Corporation is a deposit insurance corporation for income tax purposes. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, insurance claims, or special contributions paid.

The Corporation's statutory income tax rate is 20.1% (2002 – 22.5%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before income taxes, for the following reasons:

<i>(thousands of dollars)</i>	2003	2002
Expected income tax expense on pre-tax income at the statutory rate (net of general tax reduction)	\$ 1,558	\$ 1,505
Add (deduct) tax effect of:		
Non-taxable assessments	(2,949)	(3,012)
Non-deductible special contribution	1,843	1,878
Non-taxable provision for (recovery of) financial assistance	(89)	(6)
Non-deductible insurance premiums	157	156
Non-deductible insurance claims	17	67
Other	4	(8)
Income taxes	\$ 541	\$ 580

At December 31, 2003 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately \$171,000 (2002 – \$220,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 17.2%.

<i>(thousands of dollars)</i>	2003	2002
Current income taxes	\$ 528	\$ 553
Future income taxes	13	27
Income taxes	\$ 541	\$ 580

Notes to the Financial Statements

December 31, 2003

Note 10 Directors' and management remuneration

(thousands of dollars)

			2003		2002
	Director Fees or Salary ¹	Benefits ² and Allowances	Total	Total	
Chair ^{3, 5}	\$ 42	\$ -	\$ 42	\$	37
Board Members ^{3, 5}	72	-	72		65
Current senior management:					
President and Chief Executive Officer	\$ 183	\$ 24	\$ 207	\$	204
Vice President, Finance and Administration	127	22	149		138
Vice President, Credit ⁴	116	14	130		99
Vice President, Operations	109	13	122		101

¹ Salary includes regular base pay and bonuses.

² Employer's share of all employee benefits and contributions made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, vision coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships, staff fund, automobile allowances and tuitions.

³ The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Finance is a Board Member but receives no remuneration from the Corporation.

⁴ The position was occupied by two individuals in the previous year. The previous incumbent retired July 31, 2002. The new incumbent started September 1, 2002.

⁵ The minimum and maximum amounts paid to directors was \$400 (2002 - \$6,000) and \$42,000 (2002 - \$37,000) respectively. The average amount paid to directors was \$16,000 (2002 - \$17,000).

Note 11 2003 Budget

The 2003 budget was approved by the Board of Directors on September 23, 2002.

Note 12 Comparative Figures

The 2002 figures have been restated where necessary to conform to 2003 presentation.

Schedule of Administration Expenses

SCHEDULE 1

For the Year Ended December 31, 2003

(thousands of dollars)

	2003	2003	2002
	Budget	Actual	Actual
Deposit Guarantee Fund			
Salaries and benefits	\$ 2,646	\$ 2,599	\$ 2,408
Professional fees	335	115	177
Staff travel	258	149	153
Rental charges	156	161	148
Other	173	96	104
Office	117	97	103
Board and committee fees	139	114	102
Amortization	133	82	96
Board and committee expenses	48	24	21
	4,005	3,437	3,312
Allocation to Master Bond Fund	(120)	(120)	(120)
	\$ 3,885	\$ 3,317	\$ 3,192

Corporate Governance Practices

The Board of Directors and management have established governance practices that are consistent with the Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange, as set out below. Further changes to governance practices are anticipated from the Ontario Securities Commission. The Corporation will continue to follow best practices guidelines on governance as these come into effect and consider amendments to our practices, as appropriate.

The Board of Directors oversees the business and affairs of the Corporation and operates under formal Terms of Reference. The Board makes all major policy decisions for the Corporation. Many Board functions are carried out by the four committees of the Board.

The Board has a "Code of Conduct and Ethics Policy for Directors" that is acknowledged on an annual basis. The effectiveness of the Board and the committees is assessed annually by each director with the objective of continually improving corporate governance practices.

TSX Amended Guidelines for Effective Corporate Governance	Governance Practices for Credit Union Deposit Guarantee Corporation (Corporation)
<p>1. The board should explicitly assume responsibility for the stewardship of the corporation and for:</p> <ul style="list-style-type: none"> a) adoption of a strategic planning process; b) identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks; c) succession planning, including appointing, training and monitoring senior management; d) a communications policy; e) the integrity of the corporation's internal control and management information systems. 	<p>1. The Board is responsible for the stewardship of the Corporation and ensures its purposes and business activities as outlined in the <i>Credit Union Act</i> are fulfilled, as per its Terms of Reference.</p> <ul style="list-style-type: none"> a) the Board holds a planning meeting annually for the development of a strategic plan. In accordance with the bylaws, the final plan is approved by the Board and submitted to the Minister of Finance for approval. b) the risks of the Corporation are identified on a regular basis through the strategic planning process and at Board and committee meetings. An Enterprise Risk Management Framework has been developed. c) the Human Resources Committee reports to the Board regarding senior management succession planning and training. The Board monitors and approves the appointment of the President and CEO position. d) the Board approves the communication policy for the Corporation and reviews it annually. e) the integrity of internal controls and management information systems are reviewed at Audit Committee meetings.
<p>2. A majority of directors should be "unrelated" (independent of management and free from any business or other relationships which would reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the corporation).</p>	<p>2. The Lieutenant Governor in Council appoints the directors to the Board. The credit union system provides names of two nominated representatives. The Minister appoints the Chair and Vice Chair. The Board annually reviews its composition to determine that a majority of directors are independent.</p>
<p>3. The board should be responsible for applying the definition of "unrelated director" to each individual director and for disclosing annually the analysis of the application of the principles supporting this definition and whether the board has a majority of unrelated directors.</p>	<p>3. Since the directors are appointed by the Lieutenant Governor in Council, all directors are "unrelated" and independent of management.</p>
<p>4. The board of directors should appoint a committee of directors, composed exclusively of outside (non-management) directors, a majority of whom are "unrelated" directors, with responsibility to propose new nominees to the board and for assessing directors on an ongoing basis.</p>	<p>4. The Board Governance Committee reviews the skill sets of the Board and develops a Board succession plan.</p>
<p>5. The board should implement a process, to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board, the committees and the contribution of individual directors.</p>	<p>5. The Board Governance Committee is responsible for developing and administering performance questionnaires to evaluate performance of the Board and committees. The questionnaires are completed annually.</p>

Corporate Governance Practices

TSX Amended Guidelines for Effective Corporate Governance	Governance Practices for Credit Union Deposit Guarantee Corporation (Corporation)
<p>6. The corporation should provide an orientation and education program for new directors.</p>	<p>6. The Board Governance Committee oversees the orientation for new Board members and the education plan for Board members.</p>
<p>7. The board should examine its size and undertake, where appropriate, a program to establish a board size which facilitates effective decision-making.</p>	<p>7. The size of the Board is eight members as specified in the <i>Credit Union Act</i>. A process exists for the Corporation to make recommendations to amend the <i>Credit Union Act</i>.</p>
<p>8. The board should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects responsibilities and risks involved in being an effective director.</p>	<p>8. Since the Corporation is a Provincial corporation under the <i>Financial Administration Act</i>, the compensation for directors is established by the Committee Remuneration Order approved by the Lieutenant Governor in Council.</p>
<p>9. Committees of the board should generally be composed of outside directors, a majority of whom are unrelated, although some board committees may include one or more inside directors.</p>	<p>9. The committees of the Board are composed of directors who are unrelated. The Corporation Credit Committee is not a committee of the Board and the President and CEO is a member of this committee.</p>
<p>10. The board should expressly assume responsibility for, or assign to a committee of directors, the general responsibility for developing the approach to governance issues. The committee would, among other things, be responsible for the response to these governance guidelines.</p>	<p>10. The Board Governance Committee operates under its Terms of Reference. The committee is responsible to oversee matters of Board governance and to recommend changes to the Board as appropriate.</p>
<p>11. The board, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities. The board should approve or develop corporate objectives which the CEO is responsible for meeting.</p>	<p>11. The Human Resources Committee has developed the position description for the President and CEO. This committee also establishes the annual objectives and targets for the President and CEO and annually assesses the President and CEO's performance. Position descriptions for the Board will be developed by the newly formed Board Governance Committee.</p>
<p>12. The board should have in place appropriate structures and procedures to ensure that it can function independently of management. The chair of the board (non-management), a committee of the board or a "lead-director" (outside director) should have responsibility to ensure the board discharges its responsibilities. This may involve meetings of the board on a regular basis without management present.</p>	<p>12. The Board does not have any directors who are members of management; therefore the Board functions independent of management. The Chair ensures the Board carries out its responsibilities effectively and when necessary, the Board meets without management present.</p>
<p>13. The audit committee should be composed only of unrelated directors. The roles and responsibilities of the audit committee should be defined to provide appropriate guidance to the members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues. The audit committee duties should include oversight responsibility for management reporting on internal control.</p>	<p>13. The Audit Committee consists of a majority of directors who are independent and free from any relationship that may interfere with the exercise of independent judgement. All members are "financially literate". The roles of the Audit Committee are clearly defined in the <i>Credit Union Act</i> and in its Terms of Reference which is approved by the Board. The Audit Committee meets with external auditors, without management present, to review specific issues, including the oversight of internal controls.</p>
<p>14. The board of directors should implement a system which enables an individual director to engage an outside adviser at the expense of the corporation in appropriate circumstances, subject to the approval of the committee/board.</p>	<p>14. The Board has made provision for individual directors to engage an outside adviser at the expense of the Corporation when appropriate. The engagement is subject to approval by the Board.</p>

Committees

Committee	Times Met	Members	Responsibilities
AUDIT <i>(Committee of the Board)</i>	2	Mary Arnold (Chair) Allen Govenlock Peter Kruselnicki Rod McDermand Ken Motiuk	This committee acts as a bridge between the Board of Directors and the auditors in overseeing the financial reporting content and process, the appropriate systems of internal control, and the independent audit processes. The committee also reviews the systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively. The functions of this committee are set out in section 87 of the <i>Credit Union Act</i> and it operates under formal Terms of Reference. This committee has fulfilled its functions during the year.
BOARD GOVERNANCE <i>(Committee of the Board)</i>	1	Brian Evans (Chair) Bob Splane Mary Arnold	This committee assists the Board in fulfilling its obligations by providing a focus on governance issues in order to enhance Board performance. The main functions of this committee are to oversee matters of Board governance and evaluation, maintain Board Governance Handbook and Corporation Bylaws, develop Board Succession Plan, oversee orientation and education plan for directors, monitor compliance with Code of Conduct and Ethics, Terms of Reference and Memorandum of Understanding with the Minister of Finance and monitor the risk process for the Corporation enterprise-wide. The committee also reviews best practices with regard to governance issues and makes recommendations for the Board's consideration. This newly established committee operates under formal Terms of Reference and has commenced fulfilling its functions.
CORPORATION CREDIT	26	Rick Bell (Chair) Bob Splane Mary Arnold Ken Motiuk Jim Laitner (President and CEO)	The main functions of the Corporation Credit Committee are to establish loan approval limits for each credit union, and approve loans that exceed the authority levels delegated to officers of the Corporation. The committee also monitors the Corporation's Credit Department lending approval processes to ensure sound lending principles are maintained. This committee operates under formal Terms of Reference and has fulfilled its functions during the year.
FINANCE <i>(Committee of the Board)</i>	5	Mary Arnold (Chair) Allen Govenlock Peter Kruselnicki Rod McDermand Ken Motiuk	This committee monitors the financial performance of the Corporation and reports to the Board of Directors. The committee also recommends financial policies of the Corporation. The functions of this committee are set out in section 81 of the <i>Credit Union Act</i> and it operates under formal Terms of Reference. This committee has fulfilled its functions during the year.
HUMAN RESOURCES <i>(Committee of the Board)</i>	3	Rod McDermand (Chair) Bob Splane Brian Evans	This committee reviews corporate human resource matters and reports to the Board of Directors. The committee evaluates the performance of the President and CEO and reviews succession planning for senior management, personnel policies and overall employee compensation arrangements. This committee operates under formal Terms of Reference and has fulfilled its functions during the year.

Board of Directors

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

Bob Splane, Chair	A corporate director Boyle, Alberta
Mary Arnold, FCA, Vice Chair	President, Richford Holdings Ltd. Edmonton, Alberta
Rick Bell	A nominated representative from the credit union system Barrhead, Alberta
Brian Evans, Q.C.	Partner, Miller Thomson LLP A nominated representative from the credit union system Calgary, Alberta
Allen Govenlock, CA	Partner, Ellis Govenlock LLP Edmonton, Alberta
Peter Kruselnicki	Deputy Minister of Finance, Province of Alberta Edmonton, Alberta
Rod McDermid	A corporate director Alix, Alberta
Ken Motiuk	Farm business owner A corporate director Mundare, Alberta



Corporate Philosophy

We strive to maintain the Deposit Guarantee Fund at a level that will enable us to independently provide the 100% deposit guarantee. We operate efficiently and effectively in achieving our goals.

We recognize each credit union is an autonomous unit and unique in its operations. We oversee business practices in Alberta credit unions. We review and, where appropriate, approve loan applications submitted to us by credit unions, adhering to sound credit underwriting and proper securitization. We provide mentoring as well as coaching to Alberta credit unions' boards, management, and staff to help enhance their skills. Where unsound business practices or major issues are identified, we work with the credit unions to help them correct or address these matters. In extraordinary circumstances, we impose legislated sanctions resulting in a loss of credit union autonomy. When sanctions are imposed, we work diligently with the credit union to correct deficiencies promptly and to return autonomy as soon as possible.

We maintain open communication with Alberta Finance, Credit Union Central of Alberta and the credit union system to ensure a common understanding of each other's role.



CREDIT UNION DEPOSIT GUARANTEE CORPORATION

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